

European Communities

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REPORT

on behalf of the Committee on Budgetary Control

on compliance with the principles of sound
financial management in respect of sales of
reduced-price Christmas butter

Rapporteur: Mr AIGNER

PE 85.660/fin.

By letter of 16 February 1983, the Committee on Budgetary Control requested authorization to draw up a report on compliance with the principles of sound financial management in respect of sales of reduced-price Christmas butter.

This authorization was granted by decision of the Bureau on 13 April 1983. On 6 June 1983, the Committee on Agriculture was requested to deliver an opinion on the report.

On 12 July 1983, the Committee on Budgetary Control appointed Mr AIGNER rapporteur. At the same meeting, the Committee considered the draft report and adopted the motion for a resolution unanimously.

The following took part in the vote: Mr AIGNER, chairman and rapporteur; Mr TREACY, vice-chairman; Mr BATTERSBY, Mr GABERT, Mr HORD (deputizing for Mr PATTERSON), Mr IRMER, Mr JÜRGENS, Mr KELLET-BOWMAN, Mr LALUMIERE, Mr MARCK, Mr ORLANDI, Mr PROTOPAPADAKIS (deputizing for Mr GONTIKAS), Mr SCHÖN and Mrs Van HEMELDONCK.

The opinion of the Committee on Agriculture will be submitted separately.

The present report was tabled on 14 July 1983.

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The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on compliance with the principles of sound financial management in respect of sales of reduced-price Christmas butter

The European Parliament,

- A having regard to Commission Regulation (EEC) No 2991/82 of 9 November 1982 on the temporary marketing during the 1982/83 milk year of reduced-price butter for direct consumption in the Community¹,
- B having regard to the European Parliament resolution of 15 October 1982 on measures to promote butter sales²,
- C having regard to the special report of the Court of Auditors on sales of reduced price butter within the Community³,
- D having regard to the large quantities of butter now in storage in the European Community,
- E seeking to ensure compliance with the principles of sound financial management in the context of a long-term marketing policy,
- F having regard to the fact that dependence on external sales should be reduced in favour of the widest possible development of the internal market,
- G whereas the marketing of reduced-price Christmas butter is a suitable means of promoting sales and hence reducing the large stocks, while maintaining the economic value of the product,

¹OJ No. L 314/27, 10.11.1982

²OJ No. C 292, 8.11.1982, p. 113

³OJ No. C 143, 7.6.1982

H whereas the last Christmas butter scheme was launched too late to achieve maximum success,

I having regard to the report by the Committee on Budgetary Control (Doc. 1-604/83) and the opinion of the Committee on Agriculture,

1. Calls on the Commission to establish, well before the end of 1983, the legal and practical requirements for the temporary marketing of reduced-price butter for direct consumption in the EEC in the form of a 1983/84 end-of-year Christmas butter scheme;
2. Takes the view that at least 150,000 - 200,000 t of butter should be sold in the context of the scheme and that it should be made available to consumers no later than 1 December 1982; this is the only way to reduce the pressure to export, with a view to securing a reasonable world market price for exports;
3. Calls on the Commission, in accordance with Parliament's resolution of 15 October 1982 (Doc. 1-696/82) and to ensure maximum sales, to provide for one packet of butter to be given away to each consumer purchasing two packets at normal market prices; believes that sales could be substantially increased in this way;
4. Proposes in this connection that the free packets be marked as such and that the sales conditions be made known to consumers in an appropriate manner;
5. Reminds the Member States of their obligation to ensure the proper and smooth implementation of the measures and to carry out the necessary controls;
6. Instructs its President to forward this resolution to the Commission and Council and to the governments of the Member States of the European Community.

B

EXPLANATORY STATEMENT

Situation with regard to surpluses

1. Between the end of June 1982 and 13 June 1983 stocks of butter in public and private storage within the Community rose from 220,000 t to 548,000 t and stocks of milk powder from 400,000 t to 877,000 t. In the period March 1982 - March 1983 butter stocks rose from 40,000 t to 340,000 t and stocks of milk powder from 270,000 t to 650,000 t. It has recently been calculated that deliveries of milk have increased by 7% as compared with the previous year. Stocks generally reach their peak in autumn, so that further increases are likely between now and then.

Estimated expenditure under the 1983 budget

2. Appropriations entered in the 1983 budget amount to

Refunds on milk and milk products	2,065,000,000 ECU
Intervention storage of skimmed-milk powder	169,000,000 ECU
Intervention in the form of consumption aid	1,365,000,000 ECU
Intervention storage of butter and cream	313,000,000 ECU
Other measures relating to butterfat	263,000,000 ECU
Intervention for other milk products	36,000,000 ECU
Other measures in the milk and milk products sector	301,000,000 ECU
Measures to assist small producers	120,000,000 ECU

	4,632,000,000 ECU

This includes 519,000 ECU in the form of a co-responsibility levy on producers.

In view of the high rate of increase in milk deliveries the supplementary budget for 1983 will provide for at least 500,000,000 ECU additional expenditure for the milk sector alone.

Measures envisaged in the budget to reduce surpluses

3. The 1983 budget provides for the following measures to promote sales of surplus butter and milk:

- consumption aid for butter and for those receiving social assistance 73,000,000 ECU
- school milk 128,000,000 ECU
- other measures relating to butterfat and expenditure in the context of storage for sales of reduced-price butter to:
 - the armed forces
 - non-profit-making organizations
 - manufacturers of pastry products and ice-cream
 - consumer aid in the United Kingdom, Denmark, Ireland and Luxembourg
 - Christmas butter

} 190 m + 174 m ECU

Selecting more economic and more effective markets

4. The Community's self-sufficiency in butter had already reached 119% in 1980. In 1981 it produced 1,949,000 t of butter. In the marketing year 1980/81 the Community imported 114,000 t of butter and butter oil and exported 490,000 t.

In the light of consumer habits and of the rapid growth in production alongside stagnating and even declining consumption, the Community has directed its efforts towards selling a large proportion of its surplus quantities on external markets.

In its special report¹ the European Court of Auditors notes that, taking account of storage costs, external sales are far less expensive than any disposal measure on the internal market. Unfortunately the Court of Auditors did not analyse the mutual relationship between internal and world market prices. Moreover, although internal demand is flexible, it is nevertheless firmly limited by existing price policy and by competition from alternative products.

1 Special report of the Court of Auditors on sales of reduced-price butter within the Community, OJ No. C 143, 7.6.1982

5. Nevertheless, it does not follow that external sales of butter, as handled at present - precisely with a view to a long-term export policy - represents the most economic solution.

It must also be borne in mind that, due to possible disruptive factors of a political and economic nature, there is no question of selling unlimited surplus quantities on external markets.

6. In addition, past experience has repeatedly shown that, with their state-controlled economies, the eastern bloc countries were able to exploit the surplus situation on the EEC market and, through temporary speculative non-participation in the market, to a certain extent to exert pressure on the Commission. Their aim was to secure an increase in export refunds and hence, as a traditional customer, to obtain a favourable purchase price. In practical terms the eastern bloc countries are concerned to obtain deliveries from the Community for their normal supplies, but state control of trade enables them to make their purchases at the time which suits them best.

Since the Community controls around 70% of the world market in this sector, it should not allow itself to be pressurized with regard to the fixing of export refund rates.

7. It is therefore extremely important in this connection energetically to promote sales on the internal market, thereby significantly alleviating dependence on exports. There is no doubt - and the admittedly expensive but effective measures to promote sales on the internal market prove it - that potential demand within the EEC has still not been fully exploited. One reason for this is that butter is a high-quality product which under the right conditions, always finds a buyer. It would therefore be appropriate, particularly when stocks increase, to use reasonable budget funds to exploit untapped demand on the internal market. If the obligation to export virtually at any price is removed, not only will there be a constant demand from the eastern bloc countries but it will also be possible to achieve a price that is more favourable to the EEC budget.
8. Unlike the sales of reduced-price Christmas butter, the scope for the other measures to promote sales to non-profit-making organizations, the

armed forces, etc., is limited. Christmas butter reaches all sections of the Community's population without distinction. If this scheme is implemented in good time, it coincides roughly with the period of peak stocks, which means that a substantial proportion of the surpluses can be disposed of at a favourable time.

9. To facilitate the maximum development of the internal market and the least possible dependence on external sales of butter surpluses, an economic approach is needed whereby, bearing in mind the need to maintain the value of the product, it is more favourable for the Community as producer to sell on the internal market, even if this involves substantial costs, than to subsidise external sales.

Determining cost-effectiveness

10. A comparison of the various sales measures, broken down into actual costs and costs related to the rate of effectiveness, produces the following result:

MEASURES FOR THE DISPOSAL OF BUTTER IN THE COMMUNITY (in 1980)

Nature of the measure	Quantity sold in 1980 (1 000 tonnes)	Current level of aid or price reduction borne by the EAGGF (ECU/100 kg)	Estimated annual cost on basis of current aid (million ECU)	Rate of effectiveness (assessment)	EAGGF marginal cost (per 100 kg of additional butter) (ECU/100 kg)
Sale to army and similar forces	8.6	170.5	14.7	95	180
Sale to non-profit-making organizations	26.2	170.5	44.7	95	180
Commercial export of butter	348.4	105.0	365.8	100	105
Commercial export of butteroil (in butter equivalent)	228.7	118.9	271.9	100	119
Sale to cake shops and bakers	108.1	171.0	184.9	75	228
Sale to ice-cream producers	44.2	111.0	49.1	60	185
Food aid: butteroil (in butter equivalent)	54.4	118.9 ¹	64.7	—	119
Persons receiving social assistance	6.0	60.4	3.6	20	302
Sale of concentrated butter	4.7	170.5	8.0	80	213
Aid to consumption					
— United Kingdom	265.0 ²	45.94	121.7	6.2	740
— Denmark	41.5	50.0	20.8	19.0	264
— Ireland	40.4	50.0	20.2	18.4	273
— Luxembourg	2.5	36.83	0.9	9.0	410

¹ Not including butter from New Zealand.

² Only the amount of the refund falls to the expense of the EAGGF; the other costs are borne by the 'Aid to developing countries' budget.

Source: Working document DG VI, D 1 of 16 March 1981. (Table taken from the Court of Auditors' report, OJ No. C143, 7.6.1982, p. 32)

Outcome of the 1982/83 Christmas butter scheme

11. A total of 120,000 t of butter was made available for reduced-price sales at the end of 1982, and a subsidy of 130 ECU/100 kg was granted in those Member States that do not provide general aid to promote butter sales throughout the year. Consumer aid is at present provided at the rate of 45 ECU/100 kg of butter in Denmark, Ireland, Luxembourg and the United Kingdom. The subsidies for Christmas butter therefore involved only an additional 85 ECU/100 kg. Since this measure led to the sale of an additional 30,000 t of butter and since total subsidies amounted to 150 m ECU, each additional tonne consumed was subsidized to the extent of 5,000 ECU, while the intervention price stood at 3,500 ECU/tonne and export refunds during the period concerned at around 1,570 ECU. Taking into account the additional 30,000 tons of butter sold, the rate of effectiveness of the measure was 25%. Account must also be taken here of the savings in storage costs and of the fact that a fall in the value of the butter resulting from storage, was prevented. Moreover, the method used to determine the additional sales is dubious to say the least, and tends rather to obscure the actual success of the measure.
12. Since this scheme evoked great demand, it may be assumed that the market could have absorbed a larger quantity of reduced-price butter, which would have resulted in an increase in the rate of effectiveness and a relative decrease in marketing costs.
13. It must be pointed out that the last scheme showed a serious defect which directly influenced its success: the substantial delay in launching the 1982/83 scheme. Pursuant to Article 2 of Regulation No. 2991/82 of 9 November 1982, contracts of sale were to be concluded before 20 December 1982 and delivery of the butter had to be taken at the latest by 31 December 1982. The measure was therefore launched about one month too late in order to take advantage of the increased consumption of butter during the Christmas period. Timing is of particular importance. In the case of a measure applied for a limited period to coincide with a seasonal increase in consumption.
14. It should also be pointed out in this connection that the Commission clearly did not deploy the necessary energy and determination when preparing the 1982/83 Christmas butter scheme, so that the impression arose that

the relevant producer and retail circles had not been unsuccessful in exerting influence on behalf of their own economic interests. The information provided by the Commission for the purpose of evaluating the scheme's success also reveals the powerful influence exerted by producers and retailers of competing products. The Commission's unwillingness to intervene is likewise illustrated by the wide variation in the rate of effectiveness from one Member State to another.

It is also unacceptable for the revenue from the co-responsibility levy on producers to be used to squander butter stocks on the world market rather than to nurture the internal market. Through a desire for convenience and a lack of imagination the Commission has so far failed to devote the necessary care to encouraging and developing the sales potential within the Community and to implement a long-term strategy which takes equal account of the interests of producers and taxpayers.

15. The co-responsibility levy on producers was after all introduced to bring about a lasting improvement in sales of milk products on the internal market and widely applicable, high publicity-value measures such as the Christmas butter scheme are among the best ways of achieving this aim. The impression is that, provided funds were available to finance increasing exports, there was no attempt to develop a suitable strategy for the successful marketing of large quantities of butter on the internal market.

Conclusions

16. The following implications should be drawn from past schemes with a view to the sale of reduced-price butter at the end of 1983.
 - (a) The quantities involved should be increased to at least 150,000 - 200,000 t.
 - (b) Christmas butter should be made available to consumers no later than 1 December 1983.
 - (c) To increase butter sales and hence to improve the rate of effectiveness of the measure, Christmas butter should be distributed by giving away a quantity of butter equal to half the quantity purchased at the normal price (in accordance with the European

Parliament resolution of 14 October 1982 - Doc. 1-696/82). In view of the greater publicity value of a free gift, a Christmas butter scheme of this kind would be much more successful.

To guarantee the success of the measure, the free butter should be marked as such and be made available to dealers only when they purchase twice the quantity of butter at normal prices. In addition, the scheme should be made known to consumers by providing information in the media and at sales points.

